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TAGS: [EFIN](#) [ECON](#) [PREL](#) [CH](#)
SUBJECT: CHINA'S BANKING REFORMS FAST ENOUGH FOR HSBC

REF: A. 06 Shanghai 5846

[1](#)B. Shanghai 247

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[1](#)1. (SBU) Summary: At a meeting with visiting Embassy Finatt on May 16, HSBC China Deputy CEO Bryan Stiles and Global Markets Managing Director David Liao said HSBC's local incorporation had gone smoothly. HSBC believed that Chinese regulators would soon allow foreign banks to offer retail RMB customers debit cards. Removing regulatory obstacles would not necessarily allow foreign banks to expand more quickly, given the scarcity of qualified staff. HSBC hoped that China soon would allow all banks to hold net open positions shorting the dollar rather than giving one bank (Tianjin Commercial Bank) a competitive advantage by allowing only it to do so. End summary.

Local Incorporation Smooth; CBRC Responsive

[1](#)2. (SBU) In a meeting on May 16, HSBC's Stiles and Liao told visiting Embassy Finatt that HSBC's local incorporation in China had gone "very smoothly." Stiles said that the China Banking and Regulatory Commission (CBRC) had been especially responsive in working out the "significant finer details." In fact, said Stiles, it was "incredible" that China had managed to incorporate four major banks in one year. He attributed this to all sides -- both the banks and CBRC -- wanting the process to succeed.

[1](#)3. (SBU) Though locally-incorporated foreign banks were now able to take RMB deposits, the CBRC had not yet allowed them to issue debit cards to their customers to access their accounts. Stiles felt that this was "a relatively small speed bump" and expressed his confidence that this would be resolved within three months. (Note: During the subsequent May 22-23 Strategic Economic Dialogue discussions in Washington, DC, the Chinese government

agreed to allow foreign incorporated banks qualified for RMB retail businesses to issue RMB bank cards which meet the operational and technical standards of China's banking cards, and enjoy the same treatment as Chinese banks. End note.)

HSBC Struggling To Expand at Pace Allowed

14. (SBU) While USG officials often focused on regulatory obstacles, Stiles stressed that recruiting, training and retaining qualified staff was as important a factor in constraining growth by foreign banks (Ref A). Stiles said that HSBC had opened branches in western and central China in order to receive CBRC blessing to open new branches in economically more-vibrant areas. "Some cities that we have opened branches in, we wouldn't actually have planned to be there for 15 years," he added.

Opening Up Means More Chance to Regulate

15. (SBU) Stiles suggested that the USG message to China on capital account liberalization should be that bringing informal sector activities into the formal sector would improve regulation and oversight. Stiles said that the hot flows of foreign currency already coming into China to take advantage of the expected RMB appreciation was one area that could be addressed by lifting the quota caps on the Qualified Foreign Institutional Investor (QFII) program.

HSBC FOREX Traders Gaming the System

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16. (SBU) HSBC's Liao commented that the China Foreign Exchange Trading System (CFETS) much-vaunted new trading software platform (Ref B) was "not at all user-friendly." The worst aspect of the new software was that the price shown on the trading screen was only an "indicative" price and not binding for a trade. Once a trader decided to make a trade, he or she had to call up to find out what the actual price was. Liao described how HSBC traders had attempted to use this feature to their benefit, saying that it was like "kids with a new computer game." (Note: In a separate conversation on May 14 with Pol/Econ Chief, JP Morgan Greater China General Manager Andrew Zhang explained how JP Morgan had to work through a broker with access to Reuters to find out the actual prices being offered and then confirm trades by phone, sending other business to the broker to compensate for the fact that JP Morgan couldn't pay for the "informal" services being provided that were supposed to be provided by CFETS. Zhang planned to raise the issue with CFETS President Xie Duo. End note.)

17. (SBU) HSBC's Liao said that the next step necessary in creating a more liquid foreign exchange market was to allow banks to take a short position on the dollar. In an unwritten rule, banks were allowed a five day average in longing and shorting the dollar -- but if the average reflected a net short position the bank would be fined. Liao said that the one bank in Tianjin that was permitted to short the dollar, Tianjin Commercial Bank, was "enjoying it very much." It would be preferable if CFETS could allow every bank to take a short dollar position, even if subject to strict limits, he suggested.

Foreign Debt Restrictions Not Slowing HSBC's Growth

18. (SBU) According to Liao, recent CBRC rules restricting banks' access to foreign debt did not make any sense. While one reason for this policy was to limit banks' ability to borrow in dollars

and short the dollar to speculate on RMB appreciation, Liao said that there was no way that HSBC could convert borrowed foreign currency into RMB without getting approval from the State Administration of Foreign Exchange (SAFE). According to Liao, given HSBC's large branch network relative to foreign competitors, it had ample access to RMB for the time being and thus the reduced quota for foreign debt would not yet limit its ability to expand its loan portfolio.

¶9. (SBU) Comment: As has been the case in prior meetings with HSBC executives, the general view is that China's progress and pace of banking reform is appropriate and HSBC continues to be well-positioned in the market, in part due to benefits it derives as a foreign bank able to benefit from the Closer Economic Partnership Agreement with Hong Kong. Unlike some of their counterparts at American banks, HSBC very clearly does not want to rock the boat.

¶10. (U) Embassy Finatt cleared this cable.
JARRETT